

TEACHERS' RETIREMENT BOARD
BUDGETS AND AUDITS COMMITTEE

SUBJECT: Audit - Quarterly Status Report

ITEM NUMBER: 6

ATTACHMENTS: 3

ACTION:

DATE OF MEETING: April 6, 2000

INFORMATION: X

PRESENTER: Way Lee

The following provides a quarterly report on the status of the Office of Audits' FY 1999-00 school district audits; internal audits, including special projects; external audits; and compliance case reviews as of March 20, 2000.

SCHOOL DISTRICT AUDITS:

Results of Follow-up to 50 School District Audit Reports:

The Office of Audits issued 50 school district audit reports during the period September 1994 through November 1998. There were findings that affected 550 member accounts with a total dollar effect of \$3,091,248. During the January meeting, we were asked how much of the total amount has been actually collected and adjusted in the members' accounts. We did the following analysis to answer this question.

Resolved Findings:

We found 8 of the 50 audited districts in compliance and no corrections were necessary. For the remaining 42 districts not in compliance, we reported 24 different types of findings and identified corrections to 550 active and retired member accounts with a total dollar effect of \$3,091,248. Our follow-up review of these 42 audits showed that at least \$2,183,134, or 71 percent, has been corrected. Another \$169,389, or 5 percent, in excess post-retirement earnings was forgiven by executive review and by senior management decision. As a result of reviewing our post-retirement earnings findings, management realized that guidance given to the districts was not consistently clear and concluded that it would be unfair to penalize retired members. Management worked to improve the law controlling post-retirement earnings.

Unresolved Findings:

Our follow-up discovered a total of 13 significant adjustments that have not been resolved. CalSTRS relies on the automated computer system. Eight of the 13 adjustments, that is

\$306,253 or 10%, did not take effect because the computer system programming prevented automatic adjustments. Five adjustments, that is \$76,042 or 2%, have not been reported by three districts. Management is reviewing these findings. The 12% represented corrections that were minor and we did not review to ensure corrections were made. It was not cost-effective to review every reported condition.

Identified At Risk by Audits:	\$	3,091,248	100%
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Resolved:

Reported & Adjusted	\$	2,183,134	71%
Exec Review Forgiven	\$	71,083	2%
Post-Ret Earnings Forgiven	\$	98,306	3%
Total Resolved:	\$	2,352,523	76%

Unresolved:

Reported, Not Adjusted	\$	306,253	10%
Not Reported	\$	76,042	2%
Minor, presumed not corrected	\$	256,430	12%
Total Unresolved:	\$	738,725	24%

Conclusion:

Our follow-up review has shown that at least 76% of the dollars at risk have been resolved. We track the direct cost (staff salaries, fringe benefits, travel and per diem) of each audit. The benefit per dollar spent using total resolved dollars was \$4.38. What cannot be measured but should also be recognized is the value of feedback to management and the assurance to all CalSTRS members that the reporting of their creditable compensation and service credit and the determination of their lifetime retirement benefits is being conducted in a fair manner. Confidence in their retirement system is vital.

Current Audits:

During the third quarter of FY 1999-00 the school district auditors continued to work on their internal re-engineering process as well as reporting self assessments at county offices of education. In addition, one final audit report was issued during the third quarter and one other audit is in progress. Details of these audits are provided in Attachment 1. The following table indicates the status of current audits:

School District Audits/Projects
First, Second & Third Quarters (7/1/99 - 3/20/00)

Fieldwork in progress	3
Drafting report/review	1
Draft Issued/Completing final report	0
Awaiting management's response	0
Final report issued	1
Reporting Self-Assessments draft report	1
Reporting Self Assessments work in progress	<u>1</u>
Total Audits and Projects:	7

INTERNAL AUDITS:

START Project Review:

As part of the Internal Audit Department's review of the START project, the consulting and accounting firm of Macias, Gini & Company (MG) has been engaged to assist the department in the process of verification and validation of the data conversion process.

Currently, the task of reviewing and evaluating controls and data conversion processes is contingent primarily on the degree of completion and results of the START pre-trial and full trial runs.

The START team identified a number of system and data issues during the first pre-trial run, which was completed on February 29, 2000. These are being addressed by SPL and the business users. Consequently, the degree of testing undertaken by MG will be limited to a review and evaluation of a sample of data elements extracted from the databases used for the first pre-trial run: source data from the current IDMS database and converted data from the START database which was the output from the first pre-trial run. These tests will be performed during March, 2000. The objective is to assess the degree of integrity of the corresponding START converted data and conformance with the documented conversion plans and protocols.

Audits/Special Projects:

During the third quarter of FY 1999-00 the internal audit staff issued one audit final report and one audit draft report. In addition, two audits and three special projects were in progress. Attachment 2 provides detail of the audits and special projects that staff worked on during the quarter. The following table indicates the status of internal audits/projects:

Internal Audits/Projects
Third Quarter (1/1/00 - 3/20/00)

Fieldwork in progress	5
Drafting report/review	0
Draft Issued/Completing final report	0
Awaiting management's response	1
Final report/memo issued	<u>1</u>
Total Audits:	7

COMPLIANCE CASE REVIEWS:

During period of July 1, 1999 through February 29, 2000 the compliance staff started 43 new cases and completed 37 cases. Of the 37 completed cases, one has a finding with a recovery of \$16,7693.10.

In addition, the Compliance staff has followed-up on school district audits during October, November and December 1999.

The table below indicates the status of compliance cases for the six-month period ending February 29, 2000. This data is supported by Attachment 3, which provides details of the cases.

Compliance Cases
Fiscal Year 1999 - 00 YTD (7/1/99 - 2/29/2000)

Cases from a prior period	20
Cases started during this period	43
Less final reports issued	<u>37</u>
Total Cases in Progress at the End of the Period:	26

OFFICE OF AUDITS
SCHOOL DISTRICT AUDITS: STATUS REPORT
As of March 20, 2000

Audit	Month Started	Target for Final Report	Status of Audit	Date of Final Report
San Diego Community College District.	9/99	2/00	Final audit report has been issued.	1/24/00
North Sacramento School District.	10/99	4/00	Draft report and work papers being reviewed.	N/A

Special Project	Month Started	Status of Project	Date of Final Report or Memo
Audit Improvement - Re-engineering Process.	10/98	Project is ongoing. Status reports are issued to periodically	N/A
Reporting Self-Assessment (RSA). Control Self-Assessment of county offices of education.	9/99	Draft report issued to San Diego County Office of Education (COE). Sacramento COE is work in progress.	N/A

OFFICE OF AUDITS
INTERNAL AUDITS: STATUS REPORT
FYTD, as of March 20, 2000

AUDIT PROJECTS

Audit	Month Started	Target for Final Report	Status of Audit	Date of Final Report
Death Match Application Process.	5/96 1/98	Complete	Audit complete. Reported to TRB 10/99.	7-16-99
Securities Lending Program.	9/98	Complete	Audit complete. To report to TRB 4/00.	2-15-00
Inactive Member Accounts.	2/99	4/00	Draft report issued 3/3/00.	
Prior Audit Follow Up. Identify status of prior audit findings.	12/99	4/00	Fieldwork in progress.	
Information Security Review	2/00	4/00	Fieldwork in progress.	

OFFICE OF AUDITS
INTERNAL AUDITS: STATUS REPORT
FYTD, as of March 20, 2000

SPECIAL/OTHER PROJECTS

Special Project	Month Started	Status of Project	Date of Final Report
START Project.	11/97	Fieldwork in progress. Project is ongoing, progress reports are provided to TRB sporadically. Last reported 10/99.	
CPA Coordination. External audit of FY 98/99 financial statements.	6/98	Coordination activities complete. F/S presented to TRB 11/99.	N/A
CPA selection IFB for external audit of three fiscal years' financial statements beginning 99/00.	2/00	Coordinated bid language and new contract language with the Contract Unit. Work in Progress.	N/A
Y2K Progress Review.	10/98	Project Complete. Final report issued to CEO 12/99.	12/22/99
Fraud Policy. Develop Fraud Policy for CalSTRS.	10/99	Fieldwork in progress. Research being performed to develop policy.	
Risk Assessment – Investments Branch	3/00	Preliminary work in progress	

**OFFICE OF AUDITS
 COMPLIANCE CASES: STATUS REPORT
 Fiscal Year 1999-2000
 July 1, 1999 through February 29, 2000**

Number	Assignments	Status
	Cases in Progress (26): From July 1, 1999 through February 29, 2000:	
C-2127	Gilroy Unified School District	Case work in progress.
C-2164	Oakland Unified School District	Case work in progress.
C-2167	Oakland Unified School District	Case work in progress.
C-2168	San Joaquin Delta Community College District	Case work in progress.
C-2226	West Contra Costa Unified School District	Case work in progress.
C-2227	West Contra Costa Unified School District	Case work in progress.
C-2228	West Contra Costa Unified School District	Case work in progress.
C-2229	West Contra Costa Unified School District	Case work in progress.
C-2230	West Contra Costa Unified School District	Case work in progress.
C-2261	Ventura Community College	Case work in progress.
C-2263	Lassen Community College District	Case work in progress.
C-2264	Lassen Community College District	Case work in progress.
C-2265	Lassen Community College District	Case work in progress.
C-2266	Susanville Elementary Scholl District	Case work in progress.
C-2267	Shaffer Unified School District	Case work in progress.
C-2268	Ravendale Elementary School District	Case work in progress.
C-2269	Vista Unified School District	Case work in progress.

Number	Assignments	Status
C-2270	El Dorado Union High School District	Case work in progress.
C-2271	Kern County Office of Education	Case work in progress.
C-2272	Humboldt County Office of Education	Case work in progress.
C-2273	Chowchilla Union High School District	Case work in progress.
C-2274	Sacramento City Unified School District	Case work in progress.
C-2275	Sacramento City Unified School District	Case work in progress.
C-2276	Upland Unified School District	Case work in progress.
C-2277	Victor Valley Community College District	Case work in progress.
C-2278	Oceanside City Unified School District	Case work in progress.

Number	Assignments	Status
	Cases in Review Process (0) From January 1, 2000 through February 29, 2000:	

Number	Assignments	Status
	Final Reports Issued Fiscal year-to-date (37): Final Reports Issued From January 1, 2000 through February 29, 2000 (10) are shown in bold:	
C-2148	Victor Valley Unified School District	Final report issued 10-25-99
C-2150	Barstow Unified School District	Final report issued 7-13-99
C-2169	San Joaquin Delta Community College District	Final report issued 12-10-99

Number	Assignments	Status
C-2170	San Joaquin Delta Community College District	Final Report Issued 1-24-00
C-2197	Martinez Unified School District Peralta Unified School District	Final report issued 11-4-99
C-2214	Butte College	Final report issued 8-18-99
C-2221	Kern Community College	Final report issued 8-12-99
C-2231	San Ramon Valley Unified School District	Final report issued 7-15-99
C-2233	San Ramon Valley Unified School District	Final report issued 7-15-99
C-2234	San Mateo County Office of Education	Final report issued 12-2-99
C-2235	San Mateo County Office of Education	Final report issued 10-14-99
C-2236	San Mateo County Office of Education	Final report issued 10-14-99
C-2237	South San Francisco Unified School District	Final report issued 9-27-99
C-2238	Sequoia Union High School District	Final report issued 7-27-99
C-2239	Sequoia Union High School District	Final report issued 8-11-99
C-2240	Jefferson Union High School District	Final report issued 10-21-99
C-2241	Jefferson Union High School District	Final report issued 10-19-99
C-2242	Jefferson Union High School District	Final report issued 9-24-99
C-2243	Jefferson Union High School District	Final report issued 9-24-99
C-2244	Jefferson Union High School District	Final report issued 8-3-99
C-2245	Portola Valley Elementary School District	Final report issued 12-20-99
C-2246	Portola Valley Elementary School District	Final report issued 9-28-99
C-2247	Portola Valley Elementary School District	Final report issued 12-17-99
C-2248	San Francisco Unified School District	Final Report Issued 2-10-00

Number	Assignments	Status
C-2249	San Francisco Unified School District	Final Report Issued 2-10-00
C-2250	Freemont Unified High School District	Final Report Issued 2-8-00
C-2251	King City Union Elementary School District	Final Report Issued 2-9-00
C-2252	Monterey Peninsula Unified School District	Final report issued 10-18-99
C-2253	Lompoc Unified School District	Final Report Issued 2-11-00
C-2254	Allen Hancock Joint Community College District	Final report issued 11-18-99
C-2255	Novato Unified School District	Final report issued 11-3-99
C-2256	Marin County Office of Education	Final Report Issued 1-5-00
C-2257	Marin County Office of Education	Final Report Issued 2-7-00
C-2258	Arcadia Unified School District	Final report issued 10-5-99
C-2259	State Center Community College	Final Report Issued 1-4-00
C-2260	College of Marin	Final report issued 11-3-99
C-2262	Palomar Community College District	Final Report Issued 2-17-00